Testimony of Ambassador Vonya B. McCann
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International Communications and Information Policy
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I. Introduction

Thank you for the opportunity to present the Administration's views on the privatization of INTELSAT and Inmarsat. The Administration, in partnership with the Congress, has worked tirelessly over the last four years to bring about the restructuring and privatization of these two intergovernmental satellite organizations (ISOs). In part because of these efforts, the question is no longer ***whether*** privatization will occur but ***how*** best to achieve it, including how the transition to privatization should occur. Our short answer to the "how" question is that privatization should be achieved in a way that -- through the guiding principle of competition -- simultaneously protects the interests of both U.S. commercial service providers and U.S. consumers.

The international satellite services industry, in which INTELSAT and Inmarsat are key players, is increasingly important. Privatization of national post, telephone and telegraph (PTT) monopolies around the world, combined with the Administration's successful conclusion last year of the WTO basic telecommunications services agreement, means that new markets are opening up at an unprecedented rate. And because of recent strides in technology, satellites now offer cost-effective global links for direct-to-home digital TV, advanced data services, Internet access and (soon) hand-held wireless phones usable anywhere in the world, in addition to traditional telephone calls and television feeds. Privatization of INTELSAT and Inmarsat, properly carried out, will contribute significantly to the dynamism of this exciting industry, benefiting satellite services users, providers and investors in the United States and throughout the world.

II. International Satellite Services Industry

INTELSAT and Inmarsat provide wholesale satellite capacity ("space segment") to the "Signatories" that invest in the systems and to other "direct-access" users. INTELSAT's capacity is used for "fixed-satellite services" -- i.e., to transmit phone calls, data and video programming from one country to a fixed location in another. INTELSAT's Signatories -- historically, the PTTs -- and direct-access users, in turn, sell these communications services to individual homes and businesses on a retail basis. Although INTELSAT's original focus was on providing basic telephone connectivity and television feeds, it has added new services over time, particularly multi-point and

high-speed data communications and direct-to-home video. Telephony is still INTELSAT's largest revenue source, but it has lost much of that business to undersea fiber optic cable.

Inmarsat provides capacity to transmit "mobile-satellite services" -- voice and low-speed data communications -- to and from ships, aircraft and, increasingly, trucks and laptop-sized terminals. (Both the design of its satellites and the limits of the spectrum in which it operates prevent Inmarsat from offering more advanced data and television services.) Using Inmarsat satellites to connect the satellite-relayed calls with landline telephone networks, land-earth station operators, most of them Inmarsat Signatories, bundle the Inmarsat-provided satellite capacity with their landline connection service and retail that service to mobile users. In addition to its business operations, Inmarsat is today the only global system that provides maritime distress and safety services for ships at sea -- a critical function for the Navy and Coast Guard, among others.

Although the ISOs were set up at a time when the risks of satellite ventures were too high to attract purely private investment, commercial firms have become an increasingly important part of the international satellite services industry. Hughes-owned PanAmSat is INTELSAT's major competitor for global fixed satellite services (FSS); Loral, Lockheed Martin and Columbia have smaller systems. Other FSS systems are in the planning stages (Teledesic, Skybridge), but they are several years off. As for mobile satellite services, Inmarsat's monopoly on space segment will end soon with the inauguration of the Motorola-developed Iridium system. Loral (Globalstar) and ICO Global Communications will begin offering mobile satellite services in 1999 and 2000, respectively.

Industry Attributes. Three attributes of the international satellite services industry are important to keep in mind. **First, the market is growing rapidly.** According to Communications Systems Limited, revenue is expected to nearly triple from about $7 billion in 1998 to more than $18 billion in 2002. Revenues of up to $40 billion are forecast by 2007, as the new multimedia/broadband systems come into place. The most rapidly growing markets include high-speed data transmission, Internet access and similar "point-to-multipoint" and "multipoint-to-point" services where satellites offer advantages over fiber optic cable and other hard-wired terrestrial media. Mr. Chairman, as you have observed, fast, cheap access to the Internet is critical, and satellites now offer rapid transmission speeds and high-quality video images without constraints of terrain or distance. Satellites will provide superior global connectivity for rural Americans and underserved areas the world over.

Second, despite this rapid growth, the international satellite services industry is dominated by a small number of relatively large firms and is likely to remain that way because fixed costs are very high and there are significant economies of scale.

Third, not only do U.S. companies dominate this industry as services

providers, but U.S. consumers account for the lion's share -- nearly half -- of demand for international satellite services. In fact, the U.S. government is the largest single user of INTELSAT and Inmarsat.

III. Why Privatization is Desirable

The Administration has worked to achieve the goal of restructuring and privatization of INTELSAT and Inmarsat, and the attention Congress has given to the ISOs has helped significantly to demonstrate the importance the United States places on their rapid and pro-competitive privatization. Privatization of INTELSAT and Inmarsat is desirable for two key reasons.

First, the United States has concluded that letting the private market provide goods and services wherever possible furthers competition and enhances consumer welfare. Similarly, **we do not support the participation of intergovernmental organizations in markets adequately served by competition**, because of the potential for them to distort competition as a result of their intergovernmental advantages. Although the international satellite services market was viewed as a natural monopoly when the ISOs were established, several commercial firms now compete and others are scheduled to enter. As intergovernmental organizations, INTELSAT and Inmarsat have certain advantages (e.g., privileges and immunities) that may serve to distort competition. Moreover, as the first entrants in these markets, INTELSAT and Inmarsat have established themselves at prime orbital locations and frequency spectrum. Privatization is necessary to eliminate ***de jure*** advantages and to prevent abuse of ***de facto*** ones.

Second, **pro-competitive privatization will allow for more efficient use of the assets of INTELSAT and Inmarsat, thereby benefiting satellite services users as well as ISO investors.** Because of their intergovernmental status, INTELSAT and Inmarsat have been relatively inefficient service providers: major business decisions require a consensus among scores of disparate Signatories, and the discipline of a financial bottom line is absent. Privatization, by opening INTELSAT and Inmarsat to direct public investment and a market valuation of their assets, should lead to greater operational flexibility, a speedier decisionmaking process, and access to more capital than the ISOs' current owners are willing to provide.

Progress Toward ISO Privatization. In part through the promise of greater flexibility and efficiency, the U.S. and other pro-competitive countries have been able to persuade previously reluctant governments that commercial restructuring and privatization is in the ISOs' own interest. Three years ago, Inmarsat's members spun off a significant element of its growth business into a commercial stock corporation, ICO Global Communications Ltd., in which Hughes and TRW (as well as Comsat) have substantial investments. In March, INTELSAT's member governments agreed to spin off growth business segments of that organization into a new company, New Skies

Satellites, N.V., with commitments to public trading of shares by the end of 1999. ICO and New Skies have no intergovernmental status nor any privileges and immunities, and they are subject to the laws of the jurisdictions in which they will do business, including the United States. The Administration negotiated competition-safeguard provisions as part of these multilateral actions. These two spinoffs represent important first steps in the evolution of Inmarsat and INTELSAT to more commercial entities. Significantly, they demonstrate to the member countries, especially those reluctant to undertake these steps, that their telecommunications requirements can be met by private entities in a competitive market.

More recently, INTELSAT's Director General-elect has stated unequivocally his commitment to achieve privatization by 2001. Most significant, in April, Inmarsat's member governments voted to privatize all of that organization's business operations, with a target date for transition of early 1999.

As it has done for the past four years, the United States will continue to play a leadership role on ISO privatization within the international community. We are seeking an aggressive timetable for full privatization of INTELSAT within the next couple of years.

Foreign Market Access is Separate and Distinct. Although the privatization of INTELSAT and Inmarsat will be very beneficial, it is only one part of the transition to a truly competitive global telecommunications market. INTELSAT and Inmarsat provide ***wholesale*** satellite capacity to telecommunications providers in signatory countries, not the high-profit links to ***retail*** customers. Absent INTELSAT and Inmarsat, a foreign monopoly service provider could simply substitute another source of wholesale satellite capacity and still retain its monopoly over sales of satellite services to retail customers. Therefore, **privatization of the ISOs will not reduce either the incentive or the ability of monopoly foreign telecommunications providers to restrict access to their retail, end-user market** -- the market most sought by U.S. satellite services firms. (Although some conjecture that having additional competitors in the wholesale market might put pressure on foreign governments to end their local monopolies, such an effect is highly speculative.)

In sum, the issues of INTELSAT/Inmarsat privatization and access to the retail markets of foreign telecommunications monopolies are separate and distinct. ISO privatization is important for its own sake -- for the benefits it will bring to satellite services users, providers and investors. But legislation to promote ISO privatization should not impose punitive terms on INTELSAT and Inmarsat in the mistaken belief that the ISOs can provide a lever for opening the monopoly retail markets that resist competitive entry. The problem of foreign telecommunications monopolies must be addressed directly, through bilateral negotiations or by enforcing and expanding market-opening multilateral arrangements such as the recent WTO agreement on basic telecommunications.

IV. How Best to Achieve Privatization: Two Key Concerns

Two key concerns shape the Administration's views on how best to achieve privatization of INTELSAT and Inmarsat. **First, to the extent possible, privatization should create a level playing field between the ISOs and their commercial competitors, both U.S. and foreign.** This means:

- the privatized entities must compete free of any privilege, immunity or other regulatory advantage that results from their former intergovernmental status or that is unavailable to other satellite competitors;

- privatization must remove incentives for any purchaser of the privatized entities' services to discriminate anti-competitively in their favor; and

- the privatized entities must have no advantages with respect to access to international spectrum or orbital slots.

The second vital U.S. concern is how privatization will affect the interests of consumers -- particularly American consumers. As noted earlier, the international satellite services industry is dominated by a small number of providers, and U.S. consumers are the major users of such services. Moreover, demand is forecast to nearly ***triple*** in the next few years. Given this reality, **the United States should be very careful not to limit access by INTELSAT and Inmarsat to the U.S. market in a way that harms American consumers** -- particularly in the fast-growing areas of high-speed data transmission, Internet access and video. U.S. consumers will benefit from ***more*** providers, not fewer.

Mr. Chairman, we fully support the objectives of S. 2365, the "International Satellite Communications Reform Act of 1998," which you have introduced "to foster a competitive, market-based environment in satellite communications where consumers worldwide will reap the benefits of enhanced communications services at competitive rates." Moreover, through its attention to the welfare of consumers, S. 2365 avoids the

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Under that agreement, the U.S. international telecommunications industry gained access to 52 markets in Europe, Asia, Latin America and Africa. In 49 markets, we won access to provide both voice and fast-growing data services by satellite. These 49 countries account for 80 percent of WTO member countries' total satellite services revenues. Some of the commitments contain reservations for particular services or enter into force only in a few years, but the majority of the 49 countries will permit full access for all satellite services. Under the agreement, moreover, 55 countries agreed to a far-reaching "reference paper," which contains a binding, enforceable set of competition rules, including separation between licensing authorities and operators. Much remains to be done, however, and toward this end, the United States, at the WTO
Ministerial Conference in May 1998, won the agreement of its trade partners to begin preparations for negotiations on the further liberalization of trade in services, including telecommunications services.

problem described above of imposing harmful restrictions on INTELSAT and Inmarsat access to our market.

This attention to consumers is less prominent in some other proposals for ISO privatization. For example, S. 1328/H.R. 1872, the House-passed bill, would condition access to critical U.S. markets on the ability of INTELSAT and Inmarsat to meet a fixed deadline and precise conditions for privatization, some of which are infeasible or inappropriate. As a result, we believe S. 1328/H.R. 1872 is likely to reduce, not increase, competition in the U.S. market, resulting in higher costs and fewer service options for U.S. consumers, including the federal government. (See attached Statement of Administration Views on S. 1328/H.R. 1872.)

At this time, the Administration does not believe any legislation is necessary to ensure that the restructuring and privatization of the ISOs does not harm competition in the U.S. market. The Federal Communications Commission (FCC) and the Antitrust Division of the Department of Justice have ample authority to protect competition, and the Administration has made clear its commitment to ensure that ISO privatization does not harm U.S. competition. We recognize, however, that Congress was instrumental in establishing INTELSAT and Inmarsat and that it may want to address their privatization in legislation. If so, such legislation should reflect key principles. It should:

- Lead to greater competition in the dynamic U.S. and international markets for satellite services in the years ahead, as measured by more choices and lower prices for U.S. consumers of international satellite services and more opportunities for U.S. firms to compete;

- Build on efforts already underway in INTELSAT and Inmarsat to achieve pro-competitive privatization;

- Be consistent with U.S. international obligations, including the Fourth Protocol to the World Trade Organization General Agreement on Trade in Services (the WTO basic telecommunications services agreement);

- Recognize and incorporate the existing, flexible authority of the FCC and the Department of Justice to protect competition and promote the public interest in the rapidly changing U.S. telecommunications market; and

- Give flexibility to the Executive Branch, working with the FCC, to achieve these goals, and respect the President's constitutional foreign policy prerogatives.

Although the Administration does not believe broad legislation is necessary at this time to ensure that privatization of the ISOs is pro-competitive, we intend to seek narrow legislation -- containing just a few sentences of statutory language -- that would grant unambiguous authority to the President to support the privatization of the operations of Inmarsat scheduled for early next year, and that would allow the United

States to maintain membership in the residual intergovernmental organization that will oversee global maritime distress and safety services.

We recognize that Congress wishes to address policy issues beyond simply the privatization of Inmarsat, but passage of the simple statutory change we seek would not preclude broader legislation later on. Without this change, we risk losing the momentum and undermining the progress that has been made through painstaking multilateral negotiations to privatize Inmarsat. The ability of the United States to support Inmarsat privatization will be seen as an indication of our readiness to work cooperatively toward an INTELSAT privatization.

V. Conclusion

The international satellite services industry is key to telecommunications in the 21st century. It will provide rural communities in the United States and developing countries throughout the world unimagined access to services ranging from basic telephone to digital TV with CD-quality sound to the Internet. Globe-trotting executives will be able to access e-mail, download business files and, eventually, conduct a videoconference from car, boat or plane. For corporate and home users, satellite-based networks will provide an alternative to fiber optics through efficient, untethered access to digital information and high-quality video images.

The rapid, pro-competitive privatization of INTELSAT and Inmarsat will contribute significantly to the growth and dynamism of this important industry -- benefiting satellite services users, providers and investors in the United States and around the world. Toward that end, privatization should allow commercial providers of international satellite services to compete with INTELSAT and Inmarsat on a level playing field, which has not always been possible in the past. At the same time, we should be careful not to limit the access of these two important service providers in a way that harms American consumers, who are and will remain by far the largest users of international satellite services.

We very much appreciate the Congress' strong commitment to improving competition in international satellite telecommunications. We look forward to working with you to achieve this critical goal.